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Forbes

THE BULL MARKET

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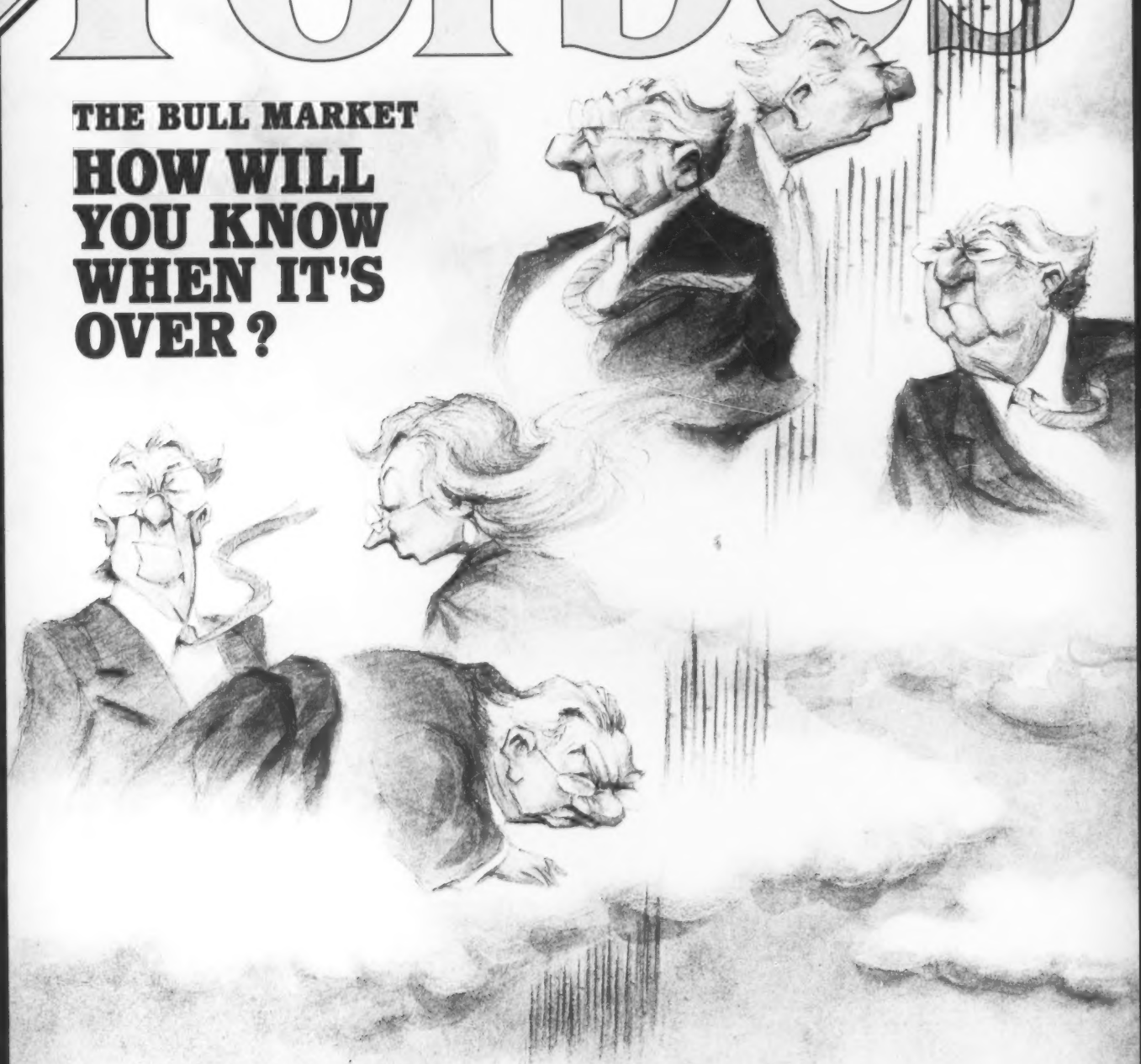

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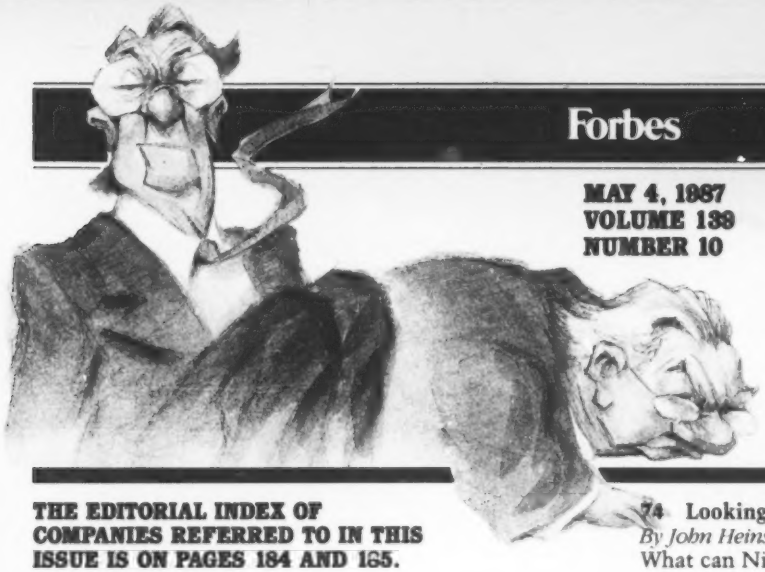

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MAY 4, 1987
VOLUME 139
NUMBER 10

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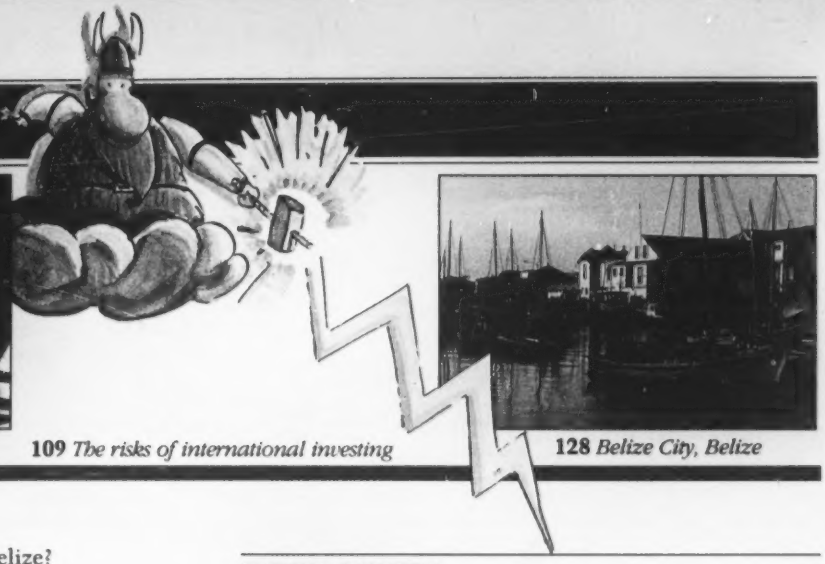

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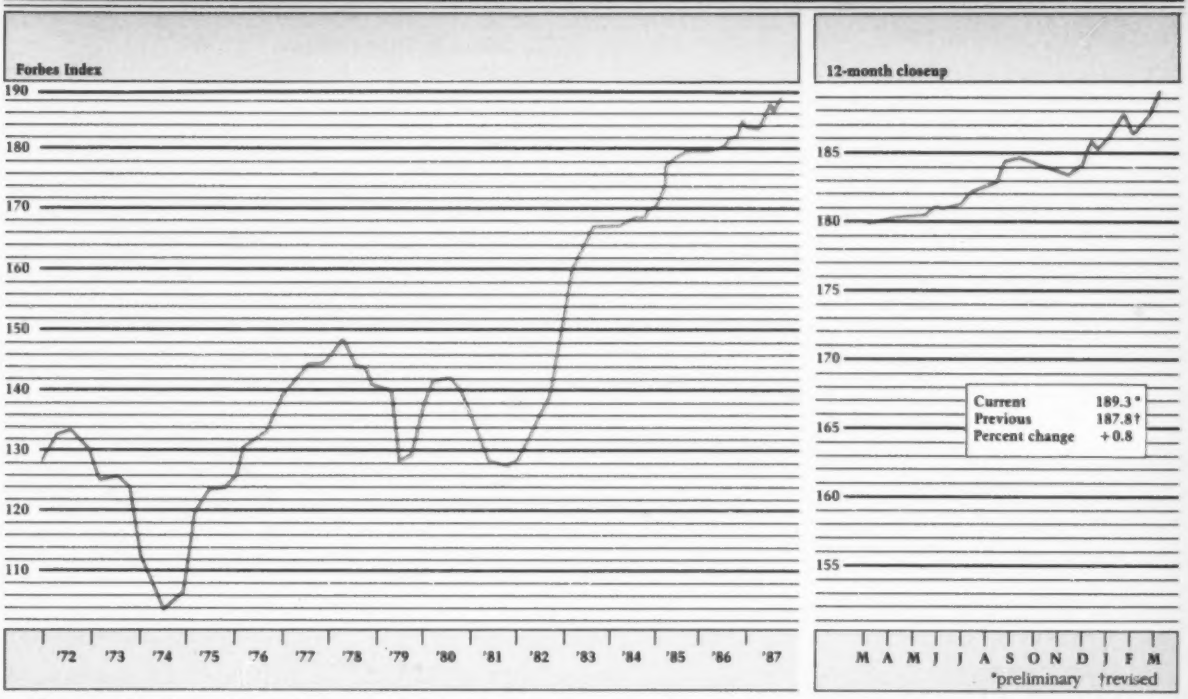
The Forbes Index

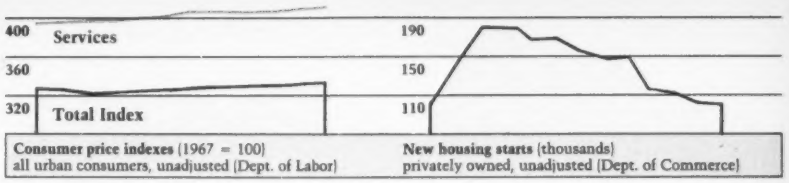


Back on track. The Forbes Index gained 0.8% in the latest reporting period, following a revised 0.8% gain in February. New unemployment claims fell 0.5% for the six months ending in March, versus the six months ending in February. The service sector appears to be compensating—and then some—for jobs lost in manufacturing. Manufacturers' new orders rose 6.7% in February over January's depressed levels. Auto sales, in particular, dropped in January when the federal deduction for state sales tax was eliminated. Calculations for the Index compare manufacturers' orders for new durable goods for the past three months with inventories for the most recent month. A 0.3% decline in inventories in February kept the overall relationship between orders and inventories fairly stable.

The Forbes Index Components

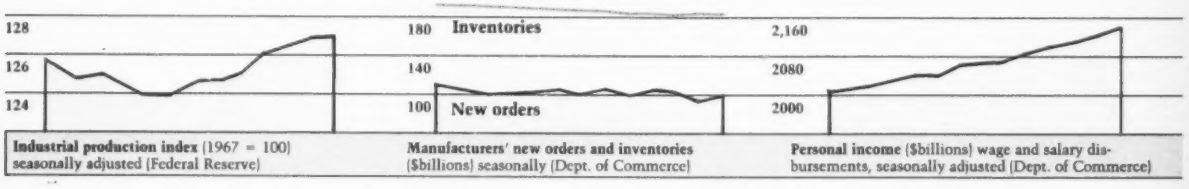
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)

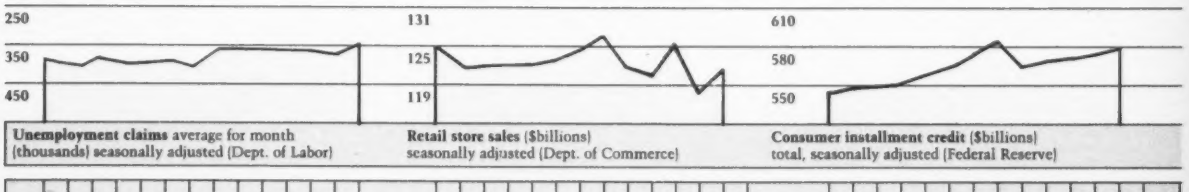
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)

Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)

Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)

Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

The best and brightest business school graduates still have eyes for Wall Street, despite the recent scandals.

"The sex appeal is intact"

By Dyan Machan

YOUNG M.B.A.s have been taking a pretty good bashing lately in the wake of the "Yuppiegate" and other financial follies in which bright young M.B.A.s have starred. But like long-distance swimmers just shy of reaching the far shore, the current crop of the best and brightest M.B.A. candidates is not about to change direction because of a mere shark scare. More of them than ever have their eyes on the big bucks offered on Wall Street. And they don't think apologies are necessary.

"Since I have been in business school, I have been repeatedly informed that M.B.A.s are lower than used car salesmen in social perception," says Michael Hoffman, 28, of the Johnson Graduate School of Management at Cornell University. "It's a bum rap."

"It is important to realize that most M.B.A.s maintain strict ethical standards," says Daniel Sharplin, 24, a student at the University of Texas at Austin Graduate School of Business.

"To label M.B.A.s as disinterested in ethical behavior based on the activities of a few crooks is not only unfair, it is naive and silly," says Edwin Bradley Jr., 24, of the Wharton School, graduate division, who himself wants a job in investment banking.

FORBES recently took the pulse of a group of M.B.A. students at the fifth annual Graduate Business Conference at the University of Texas at Austin. The gathering, sponsored by Nabisco Brands and the students' schools, brought together 98 top students selected from 28 business schools around the world.

Based on questionnaires and interviews, FORBES finds that today's graduates are more experienced, come from a broader range of disciplines, have more realistic ideas of what to expect as starting salaries and are willing to stick it out in the first job longer than previous classes. They are also more in hock *(see box, p. 158)*.

The typical candidate is a white male, 27 years old, with more than three years as a corporate lending officer. He comes from an educated household; dad is an executive in a Forbes 500s company, and mom is an accountant or teacher. Both have at least undergraduate degrees.

Although most of the students come from high-income families, only 29% found they didn't need to borrow, and almost a third face paying off loans of $10,000 to $19,000. A quarter borrowed more than $20,000. A worthy investment? People like Ted Finamore III of USC hope so. But realizing there are now some 67,000 M.B.A.s graduating every year, he feels he needs to pick up a CPA just "to maintain a competitive edge."

Many of the students have solid work experience, and only 15% went straight from undergraduate to business schools. Surprisingly, engineers make up 20% of the group—good news for manufacturing companies looking to tap this talent pool. In fact, 19% of the students are interested in manufacturing jobs. Ken Forden, 24, a student at the Owen Graduate School of Management at Vanderbilt University, is eager "to come in and shake things up" to make U.S. manufacturing more competitive. Forden, a civil engineer, predicts the U.S. will eventually beat down foreign competition and make a phoenixlike comeback. USC's Finamore agrees, but bemoans the fact that most of his peers don't seem to care about manufacturing, which he attributes partly to the M.B.A. curriculum, which has few manufacturing courses.

But the financial services sector still has the most allure, scandals be damned. Although Finamore says he himself would "rather sell Amway than go to Wall Street," the only students he knows who "don't want to go, are those that can't."

The basic reason, of course: pay. The top students can expect at least $60,000 to start, substantially more than what is offered elsewhere. And that is only the beginning. Tim Hennessey, 26, of the Kellogg Graduate

Ziggy Kaluzny

Daniel Sharplin, University of Texas at Austin
"Most M.B.A.s maintain strict ethical standards."

School of Management at Northwestern University, plans a career in investment banking and expects to earn $100,000 including his bonus his first year, double that in five years and $600,000 in a decade.

"The public's perception is lower, but as long as the money is still there and someone in his 20s can rub elbows with top officers, the sex appeal is intact," says Dan Baumbach, 25, of the University of Virginia's Colgate Darden Graduate School of Business Administration.

Will they come to Wall Street any better prepared than their predecessors to deal with touchy ethical matters? Students maintain they are better prepared, citing the greater stress now placed on ethics. The trading scandal, if anything, will make new M.B.A.s determined to do things by the book, says Jeff Rosenthal of the University of California at Los Angeles.

Others aren't sure. "I'm not convinced we're looking at just a few bad apples," says Melissa Self, 34, a former teacher now at the University of Washington Graduate School of Business Administration, which has a course in ethics. "I believe B-schools are failing to prepare M.B.A.s for making ethical decisions. Too often, M.B.A.s are asked to make decisions in those legal gray areas. There are no guidelines, no framework. Ethics are being taught as an afterthought," she complains.

Ann Summa

Ted Finamore III, USC, Mudd Hall Library
"I'd rather sell Amway than go to Wall Street."

Indeed, an informal poll revealed the students to be something less than saintly. Fifty-two were asked whether they would cheat on their taxes or trade on inside information—given chances were slim to nil they'd get nailed. Thirteen percent said they would cheat the IRS, and 21% said they would trade on inside information. In addition, another 4% said they might cheat on taxes, and 6% admitted that they might trade on insider tips. Remarked one conference observer, "An ethical M.B.A.? That's an oxymoron."

Which companies do they admire most? The results were predictable. For the last three years the M.B.A.s have picked IBM and Apple Computer as their favorites. Chrysler appears again after a one-year absence. Digital Equipment, Walt Disney Co. and Johnson & Johnson were also mentioned. Least admired? GM and Drexel Burnham Lambert.

When it comes to corporate heroes and villains, there were likewise few surprises: Lee Iacocca was named most often as a hero, but a few students fingered him as their least favorite. H. Ross Perot was also dubbed a hero, as was Steve Jobs. Ivan Boesky, GM's chief, Roger Smith, and Dennis Levine were among the least admired.

Similarly, the books students cited as most influential are either recent popular sellers or textbooks—indicating a lack of original scholarship.

On balance, then, today's best and brightest M.B.A.s seem to bring to the game a great deal of talent and ambition, simply by virtue of having risen as far as they have in the face of keen competition. But they also seem a lot less sophisticated than might be hoped for. Like all of us, they still have a lot to learn. ■

Great expectations

FORBES polled the students meeting at the University of Texas at Austin on several topics. Here are some questions and responses.

What field or industry have you chosen to enter?
Banking and finance (45%), manufacturing (19%), consulting (12%), startup (5%), marketing (5%), accounting (3%), other (11%).

What do you expect as a starting salary?
$20,000 to $40,000 (44%), more than $40,000 (24%), more than $50,000 (16%), more than $60,000 (16%).

What do you expect to make annually five years from now?
$40,000 to $74,000 (44%), $75,000 to $99,000 (24%), $100,000 to $149,000 (7%), more than $150,000 (24%).

Do you envision starting your own company?
Yes (80%), no (20%).

Most admired executives?
Lee Iacocca (39%), H. Ross Perot (30%), Steve Jobs (17%).

Least admired executives?
Ivan Boesky (55%), Roger Smith (17%), T. Boone Pickens (10%), Dennis Levine (9%).

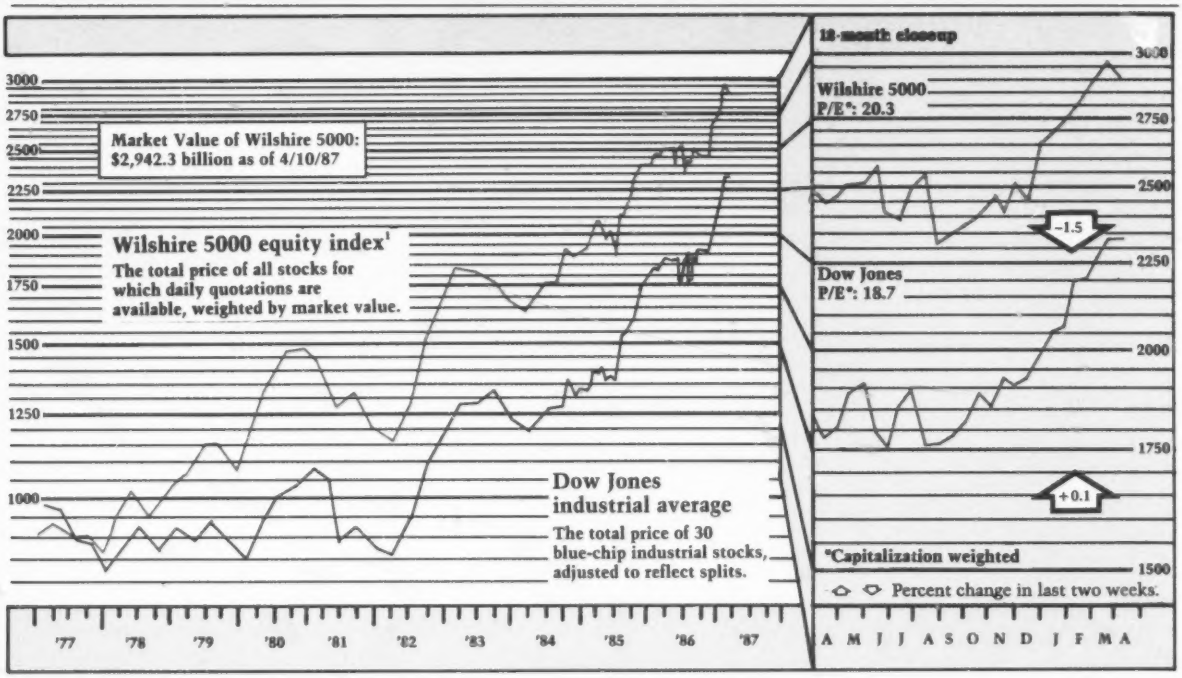
Most admired companies?
IBM (23%), Apple Computer (23%), Chrysler (21%).

Least admired companies?
General Motors (57%), Drexel Burnham Lambert (33%).

How much money did you have to borrow for school?
None (29%), $1,000 to $9,000 (12%), $10,000 to $19,000 (30%), $20,000 to $29,000 (16%), more than $30,000 (13%).

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen


Market Value of Wilshire 5000: $2,942.3 billion as of 4/10/87
Wilshire 5000 equity index[1]
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
3000
2750
2500
2250
2000
1750
1500
1250
1000
'77 '78 '79 '80 '81 '82 '83 '84 '85 '86 '87
12-month closeup
Wilshire 5000 P/E*: 20.3
Dow Jones P/E*: 18.7
-1.5
+0.1
*Capitalization weighted
Percent change in last two weeks.
A M J J A S O N D J F M A

A 44-point decline isn't what it used to be. First, the good news: The Dow industrials closed one recent session over the 2400 level. But the next day the Dow fell over 44 points. Five years ago, when Wall Street was flirting with the 1000 level, a drop of over 40 points would have been the stuff of a major correction. But in today's market such a decline represents a setback of less than 1.9%. The current Dow divisor is 0.88; when the index hit a record 2405, the prices of all 30 Dow stocks added up to 2116. This means that the next day, when the Dow fell 44 points, the average Dow issue lost more than 1¼ points and was still selling at over $70 a share. This math exercise is no guarantee that a correction is not around the corner *(see our cover story, p. 110)*, only that it will take much sharper declines to rattle this market.

The final tally shows the Dow with a 0.1% two-week gain, while the overall market, as measured by the Wilshire index of nearly 6,000 issues, fell 1.5%.

Closeup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	0.2	0.0	3.5	0.2	1.7	–0.2
in last 52 weeks	20.3	17.0	30.6	21.7	25.1	13.7

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	–0.6	3.7	5.7	1.7	1.7	–1.9	–1.5	6.8	5.4	–0.6	0.5	5.3
in last 52 weeks	21.3	43.8	64.3	26.6	21.7	16.0	11.2	48.9	64.3	20.1	22.8	29.7

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

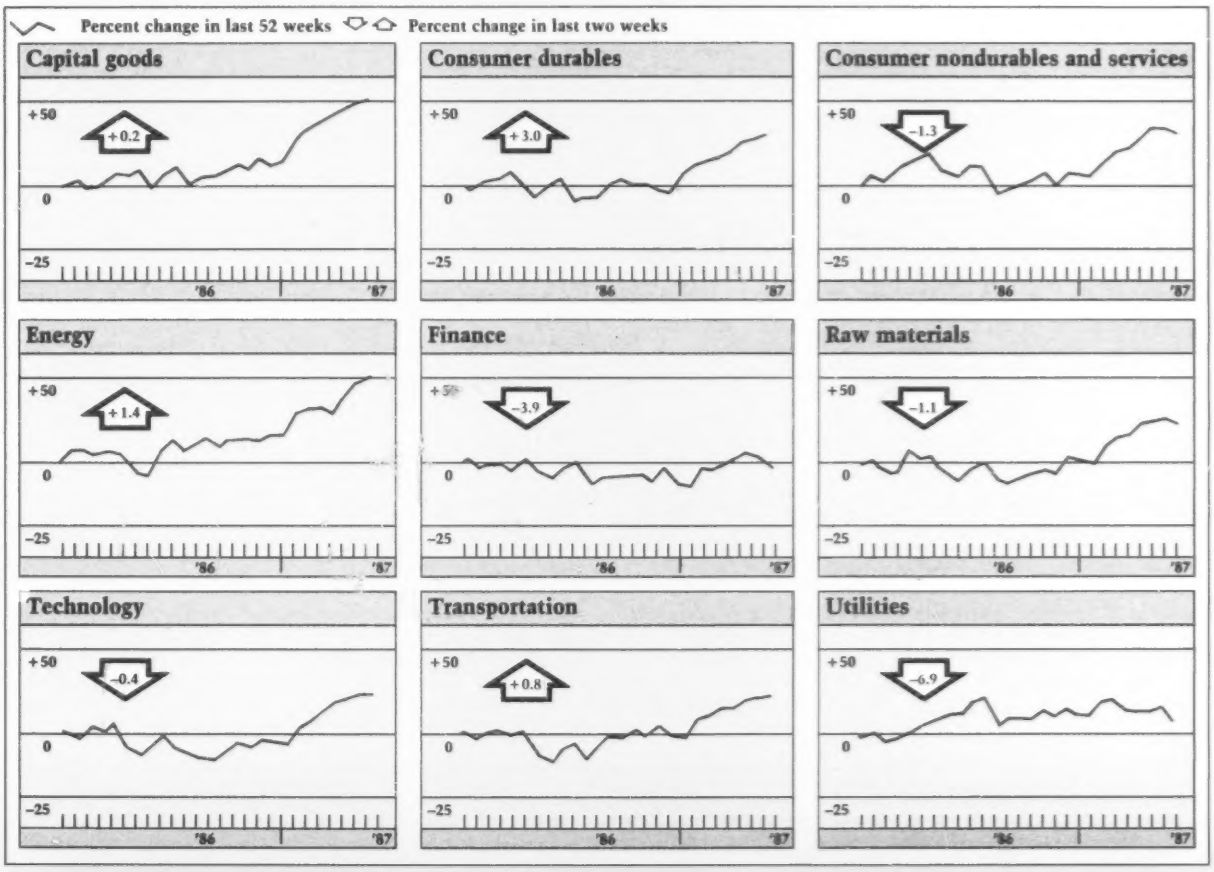
Note: All data for periods ending 4/10/87. Prepared by Wilshire Associates, Santa Monica, Calif.

Gay French

Where The Action Is

Rising interest rates drove down utility stocks 6.9% in the last two weeks. A rise in interest rates is also not welcome news for most banks and insurance companies. Finance shares fell 3.9% in the last two weeks. In fact, finance and utility shares show the worst 52-week performance. The outlook is not likely to improve for interest-sensitive stocks or the bond market unless investors perceive that rates are not on a long upward trek.

Meanwhile, energy, in spite of a decrease in crude oil futures from $17.95 to $17.38, bucked the market with a 1.4% gain. Texaco's Chapter 11 bankruptcy petition has cost the market $762 million, as measured by the drop in the combined market capitalization of Texaco and Pennzoil between Apr. 3 and Apr. 13.



What The Analysts Think

Falling prices, P/Es and estimates. With The Forbes Sales 500 falling 1.8% in two weeks, the group is now selling at 11.9 times estimated 1988 earnings, vs. a predicted multiple of 12.1 two weeks earlier. Although analysts cut estimates for all sectors except consumer durables and raw materials, prices fell faster, bringing down multiples.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.62	18.7
1987 estimates	3.53	13.9
1988 estimates	4.16	11.9

Rank based on change in estimate	Sector	Estimated 1987 EPS	Estimated 1987 P/E	% change in 1987 estimate in 2 weeks	% change in 1987 estimate in 4 weeks
1	Consumer durables	$3.54	13.1	1.21%	0.81%
2	Raw materials	2.36	17.0	0.01	–0.07
3	Consumer nondurables	2.40	17.5	–0.06	–0.05
4	Utilities	2.79	9.8	–0.08	0.71
5	Capital goods	2.47	17.5	–0.11	0.08
6	Finance	3.59	9.5	–0.16	–0.79
7	Energy	2.57	18.3	–0.34	–0.02
8	Technology	2.67	16.7	–0.38	–1.27
9	Transportation	2.65	13.5	–1.72	–2.44

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continuously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 4/10/87. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.

MONEY & INVESTMENTS

Does where you live have an effect on your love life? The evidence says yes.

THE WELL-MARRIED MANAGER

By Srully Blotnick

To many of its managers, IBM stands for "I've been moved." But the computer giant isn't alone in regularly transferring personnel. The practice is so common that the majority of American executives have lived in a variety of cities by the time they are in their 40s. It is part of the price of success.

However, it's worth asking: Which cities are good for your marriage and which ones aren't?

We put this question to 3,719 managers in the first three months of 1987. The sample consisted of people who had lived—as part of a married couple—in at least three cities for a period of a year or more. The median income of the sample's members is $68,000; their median age, 47. Since men have been transferred more often than women, at least until now, approximately 64% (2,382) of the executives included are male, while 36% (1,337) are female. The median number of cities they have lived in is 4.1. They are also frequent travelers, taking a median 23 business trips per year.

How do the largest cities rate? On a 5-point scale, from 1 (a difficult place to be happily married) through 3 (neutral) to 5 (a healthy environment for a marriage), New York scored a disappointing 2.1. Why? The most representative comments of sample members, in condensed form, are that "marriages in New York don't fail because of mortal emotional wounds suffered in conjugal combat; they die of neglect. Usually a two-career couple, the partners become so caught up in their work, they have less and less time for one another. Eventually they become estranged, roommates sharing the same living space, but each annoyed at running into the other at home. Their minds are always elsewhere, so they start saying to themselves about their spouses, 'What are *you* doing here? I didn't invite you into my bed or bathroom.' "

Los Angeles has a comparably low rating: 2.3. How come? A summary of the replies indicates that "L.A. is almost as difficult a place in which to be happily married as New York, but for a different reason. Many women in L.A. are so attractive, they could get the heads on Mount Rushmore to turn." The female members of the sample expressed similar thoughts about some of the men they had met. There is just too much temptation.

Leisure has as much to do with it as looks. "In New York there are wealthy women who don't work, but you don't notice them. In L.A. you do. They're very visible, driving expensive imports, often with the top down. Many of the moneyed men are tanned, look relaxed, enjoy long lunches and appear not to have a care in the world. That sure doesn't describe the wealthy men who are movers and shakers in New York. In other words, attractive men and women look and act available in L.A., while in New York they seem more caught up in the rat race."

So, when a serious marital problem surfaces in L.A., at least one—and often both—of the partners becomes convinced that "no relationship is worth these kinds of hassles. There's too much else for me to choose from that's better."

Say this for New York and L.A.: Both are improving as sites for satisfying marriages. Shifting residential preferences in each city underline this point to sample members: "The 'in spots' in L.A. have changed during this decade; instead of Marina del Rey and Venice, Orange County has caught on. It's the same in New York, where the Upper West Side is now almost as chic as the Upper East Side. Being a 'swingle' has lost much of its glamour in recent years, thanks in part to herpes and AIDS and an increasing interest in family life. Stylish 'singles ghettos' have been invaded by marrieds, and are beginning to echo with the cries of babies. Couples with children are the cutting edge determining which areas now are hot."

Still, New York and Los Angeles remain relatively difficult settings for most marriages. Which cities scored highest? Top-ranked by a hair was Orlando, with a 4.7, not surprising in the minds of sample members since it has Disney World and the associated businesses as major local employers. "The place has the right tone and feel to it," said many respondents. Philadelphia, Pittsburgh and Cleveland, however, were right behind, each scoring a 4.6, and that was a surprise. As sample members explained, "A town doesn't have to be booming economically for it to be a good place to raise a family, though it can't be falling apart completely, either. People in Cleveland and Pittsburgh have maintained their willingness to work and fondness for stability. They are educated, friendly—though not overly so, you never get the feeling you're in Dallas—and quite down to earth."

What was the lowest-rated city? Albuquerque, with a 1.8. While acknowledging that it has some good business opportunities, especially in construction and real estate, managers didn't like the effect of this town on their children. Their comments: "You can't help but notice an undercurrent of rebellion there, one that is stronger than that

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found in any other major U.S. city. Teenagers absorb this, and it makes them a bit more pugnacious—even five to ten years later—than they would be if they'd been raised in Cleveland or Pittsburgh.

"Albuquerque is torn between wanting to be part of the business mainstream and having a separate Wild West culture all its own. The place gives you a sense of being isolated, and it's more antagonistic—in a quiet way—than other large cities to people transplanted from one of the northern states or the East. Making friends of your neighbors is no easy task. To survive there, your marriage better be pretty solid to begin with."

New Orleans was seen by the sample as, in some ways, Albuquerque's opposite. Yet it received a score of only 2.5. How come? Their view: "With energy-related companies hurt and shipbuilding down, New Orleans is trying to make more money from tourism. But if this city pushes that 'good-times' image much harder, it's going to get a municipal hernia. Being on display all the time is a strain for a city. Doing it day after day divorces you, first from your emotions, and eventually from your spouse."

The sample's view of Dallas (2.7) and Houston (2.6): "Anyone who tells you that poor people fight about money more than affluent ones do never overheard the blistering marital battles that took place in Dallas and Houston in the 1970s and 1980s, when energy prices were soaring. Couples were torn apart because each partner came to believe that every dream—financial, social, whatever—could come true."

And when it didn't? "Then, more than in other major U.S. cities, it was thought to be okay to point a finger at your spouse and say, 'It's your fault.' In New York and Los Angeles that line doesn't wash; you're considered responsible for your own failures. In spite of the allegedly high value placed on rugged individualism in Dallas and Houston, this kind of scapegoating was—and still is—endemic."

The collapse in energy prices has actually improved the outlook for marriage in these two cities. Even though jobs are scarcer, the performance pressure on couples has decreased. "Since dreams don't become grandiose nearly as often now, it isn't as necessary to find a scapegoat when they don't come true. Be that as it may, having the 'right' spouse is more important there than it is elsewhere."

The city about which there was the greatest difference of opinion was Denver, which scored a neutral 3 as a result. The consensus view: "When husbands and wives start to fight there, the disputes usually intensify fast. The same sense of adventure and individuality that made people move to Colorado in the first place makes each say, 'Time for me to hit the road—traveling light and alone—again.' That mentality makes it difficult to make up after a quarrel. You feel like you're compromising your love of—and commitment to—the great outdoors."

No, moving to another city won't save a bad marriage, nor will it wreck a good one. But in the wide range in between, where you live does matter significantly. Cities may look alike but they have very different effects on the relationships people have while living there. ■

Geography is destiny

The effect of cities on marriage, ranked from 1 (negative) through 3 (neutral) to 5 (positive).

Orlando	4.7
Philadelphia	4.6
Pittsburgh	4.6
Cleveland	4.6
Tampa/St. Petersburg	4.4
Cincinnati	4.4
Baltimore	4.3
Chicago	4.1
Kansas City	4.0
Detroit	4.0
Hartford/Stamford	3.9
San Diego	3.6
Honolulu	3.5
Phoenix	3.4
Seattle	3.3
Richmond	3.3
Minneapolis	3.3
Milwaukee	3.2
Columbus	3.2
San Antonio	3.1
Denver	3.0
Atlanta	2.9
Boston	2.8
Miami	2.8
Dallas	2.7
Houston	2.6
San Francisco	2.6
New Orleans	2.5
Washington, D.C.	2.4
Los Angeles	2.3
New York	2.1
Albuquerque	1.8

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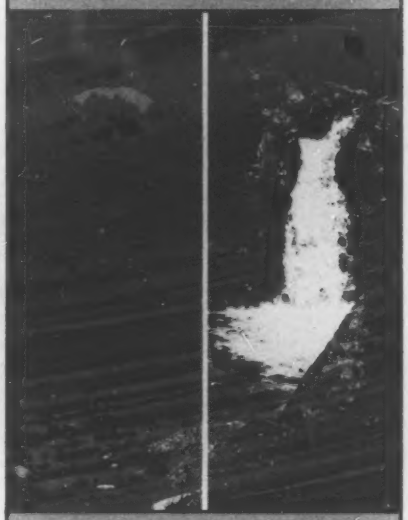

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